



Federal Taxes & Municipal Bonds

Historical & Current Perspective

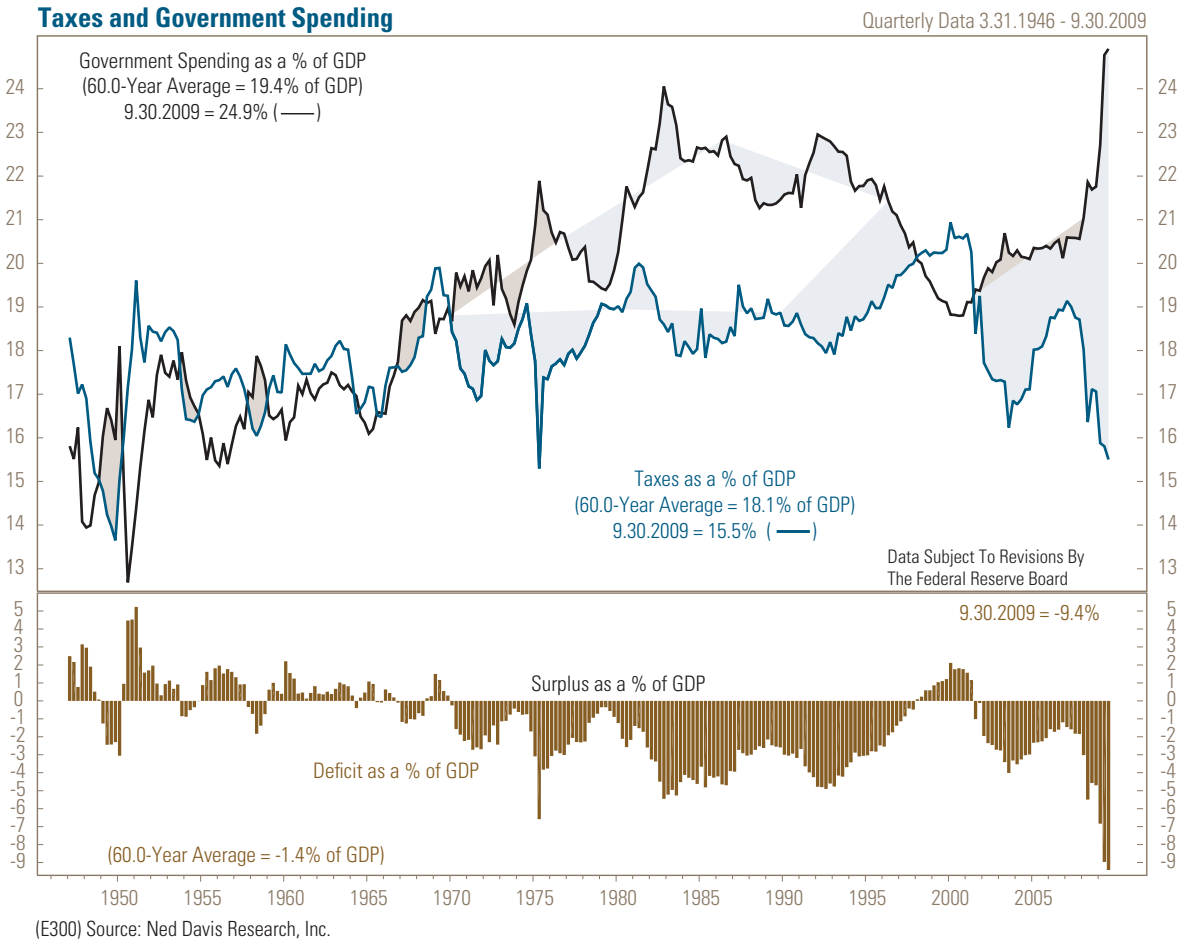
With income tax increases seemingly around the corner given the budget deficit and a potentially very expensive federal health care plan, many investors are turning to the power of tax free income. Individual investors poured money into municipal bond funds at record rates - \$73 billion in 2009 (Source: Strategic Insight). However, many budget crises at State and Local governments around the country have investors worried and perhaps, rightly so. The number of municipal bonds that experienced ratings downgrades in the first six months of 2009 was already 77% greater than all of 2008 (Source: *Wall Street Journal*, "Bargains to be had in Municipals", August 15, 2009). Thus, the importance of issue selection has never been greater.

Given this, are municipal bonds still attractive and if so, where can investors find the most value? How do current yields compare to historical yields and how do munis compare to other fixed income vehicles like treasury, agency, and corporate bonds? While municipal bonds provide tax-free income, they are not without risks. The following charts and information are intended to provide you with a historical perspective as you evaluate investing in the municipal bond market.

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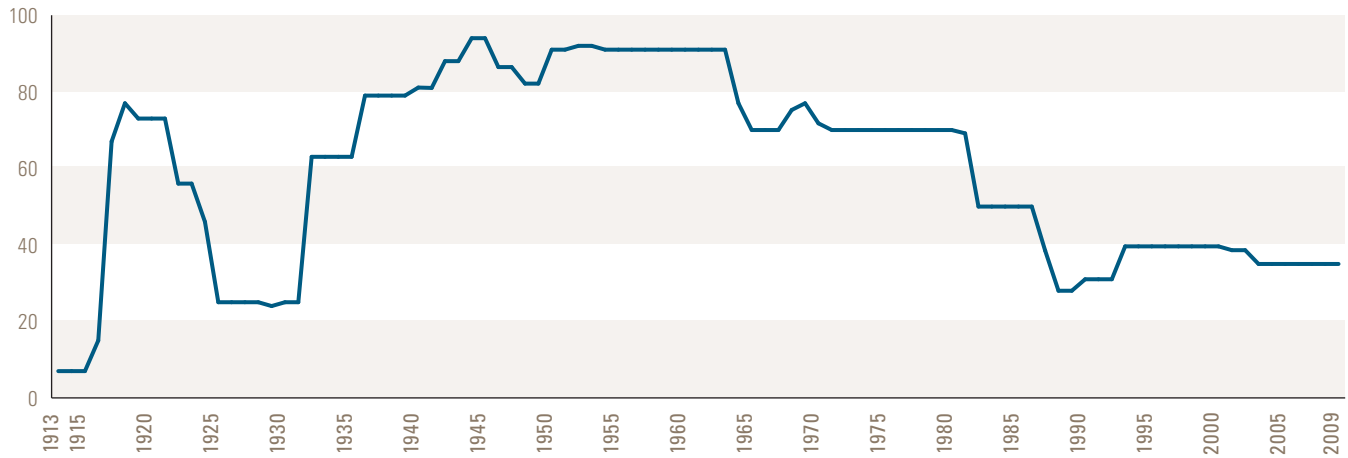
Long-Term Perspective of Taxes and Deficit as a Percent of GDP



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Historical Highest Marginal Federal Income Tax Rates

Top Marginal Federal Tax Rates 1913 – 2009



Year	Top Marginal Rate (%)	Year	Top Marginal Rate (%)	Year	Top Marginal Rate (%)
1913	7.0	1946	86.45	1979	70.00
1914	7.0	1947	86.45	1980	70.00
1915	7.0	1948	82.13	1981	69.13
1916	15.0	1949	82.13	1982	50.00
1917	67.0	1950	91.00	1983	50.00
1918	77.0	1951	91.00	1984	50.00
1919	73.0	1952	92.00	1985	50.00
1920	73.0	1953	92.00	1986	50.00
1921	73.0	1954	91.00	1987	38.50
1922	56.0	1955	91.00	1988	28.00
1923	56.0	1956	91.00	1989	28.00
1924	46.0	1957	91.00	1990	31.00
1925	25.0	1958	91.00	1991	31.00
1926	25.0	1959	91.00	1992	31.00
1927	25.0	1960	91.00	1993	39.60
1928	25.0	1961	91.00	1994	39.60
1929	24.0	1962	91.00	1995	39.60
1930	25.0	1963	91.00	1996	39.60
1931	25.0	1964	77.00	1997	39.60
1932	63.0	1965	70.00	1998	39.60
1933	63.0	1966	70.00	1999	39.60
1934	63.0	1967	70.00	2000	39.60
1935	63.0	1968	75.25	2001	38.60
1936	79.0	1969	77.00	2002	38.60
1937	79.0	1970	71.75	2003	35.00
1938	79.0	1971	70.00	2004	35.00
1939	79.0	1972	70.00	2005	35.00
1940	81.10	1973	70.00	2006	35.00
1941	81.00	1974	70.00	2007	35.00
1942	88.00	1975	70.00	2008	35.00
1943	88.00	1976	70.00	2009	35.00
1944	94.00	1977	70.00		
1945	94.00	1978	70.00		

Source: Tax Policy Center (www.taxpolicycenter.org)

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The Power of Tax-Free Income

There are only a few things in life which are certain – one of which is taxes. The “Bush Tax Cuts” are set to expire in 2010 and in this economic and political climate, many firmly believe there will be an increase in the federal income tax rates. While it may be hard to believe, the average historical top marginal federal tax rate is 59.5%, with the lowest at 7% (1913) and highest at 94% (1944 & 1945). Whether or not tax rates increase, for those in higher income tax brackets, the power of tax free income cannot be ignored. The purpose of this chart is to help you quickly evaluate the effect tax rates will have on the income provided by either a taxable or tax free bond, at both the current federal income tax brackets and hypothetical income tax brackets (using those which existed prior to the “Bush Tax Cuts”).

Taxable Yield Conversion to Tax-Free Yield Equivalent Yield

After Tax Yield

TAXABLE YIELD (%)	Current tax rates (%)			Hypothetical tax rates (%)		
	35%	33%	28%	39.6%	36%	31%
0.50	0.33	0.34	0.36	0.30	0.32	0.35
1.00	0.65	0.67	0.72	0.60	0.64	0.69
1.50	0.98	1.01	1.08	0.91	0.96	1.04
2.00	1.30	1.34	1.44	1.21	1.28	1.38
2.50	1.63	1.68	1.80	1.51	1.60	1.73
3.00	1.95	2.01	2.16	1.81	1.92	2.07
3.50	2.28	2.35	2.52	2.11	2.24	2.42
4.00	2.60	2.68	2.88	2.42	2.56	2.76
4.50	2.93	3.02	3.24	2.72	2.88	3.11
5.00	3.25	3.35	3.60	3.02	3.20	3.45
5.50	3.58	3.69	3.96	3.32	3.52	3.80
6.00	3.90	4.02	4.32	3.62	3.84	4.14
6.50	4.23	4.36	4.68	3.93	4.16	4.49
7.00	4.55	4.69	5.04	4.23	4.48	4.83
7.50	4.88	5.03	5.40	4.53	4.80	5.18
8.00	5.20	5.36	5.76	4.83	5.12	5.52
8.50	5.53	5.70	6.12	5.13	5.44	5.87
9.00	5.85	6.03	6.48	5.44	5.76	6.21
9.50	6.18	6.37	6.84	5.74	6.08	6.56
10.00	6.50	6.70	7.20	6.04	6.40	6.90

Tax-Free Yield Conversion to Taxable Equivalent Yield

Taxable Equivalent Yield

MUNICIPAL YIELD (%)	Current tax rates (%)			Hypothetical tax rates (%)		
	35%	33%	28%	39.6%	36%	31%
0.50	0.77	0.75	0.69	0.83	0.78	0.72
1.00	1.54	1.49	1.39	1.66	1.56	1.45
1.50	2.31	2.24	2.08	2.48	2.34	2.17
2.00	3.08	2.99	2.78	3.31	3.13	2.90
2.50	3.85	3.73	3.47	4.14	3.91	3.61
3.00	4.62	4.48	4.17	4.97	4.69	4.35
3.50	5.38	5.22	4.86	5.79	5.47	5.07
4.00	6.15	5.97	5.56	6.62	6.25	5.80
4.50	6.92	6.72	6.25	7.45	7.03	6.52
5.00	7.69	7.46	6.94	8.28	7.81	7.25
5.50	8.46	8.21	7.64	9.11	8.59	7.97
6.00	9.23	8.96	8.33	9.93	9.38	8.70
6.50	10.00	9.70	9.03	10.76	10.16	9.42
7.00	10.77	10.45	9.72	11.59	10.94	10.14
7.50	11.54	11.19	10.42	12.42	11.72	10.87
8.00	12.31	11.94	11.11	13.25	12.50	11.59
8.50	13.08	12.69	11.81	14.07	13.28	12.32
9.00	13.85	13.43	12.50	14.90	14.06	13.04
9.50	14.62	14.18	13.19	15.73	14.84	13.77
10.00	15.38	14.93	13.89	16.56	15.63	14.49

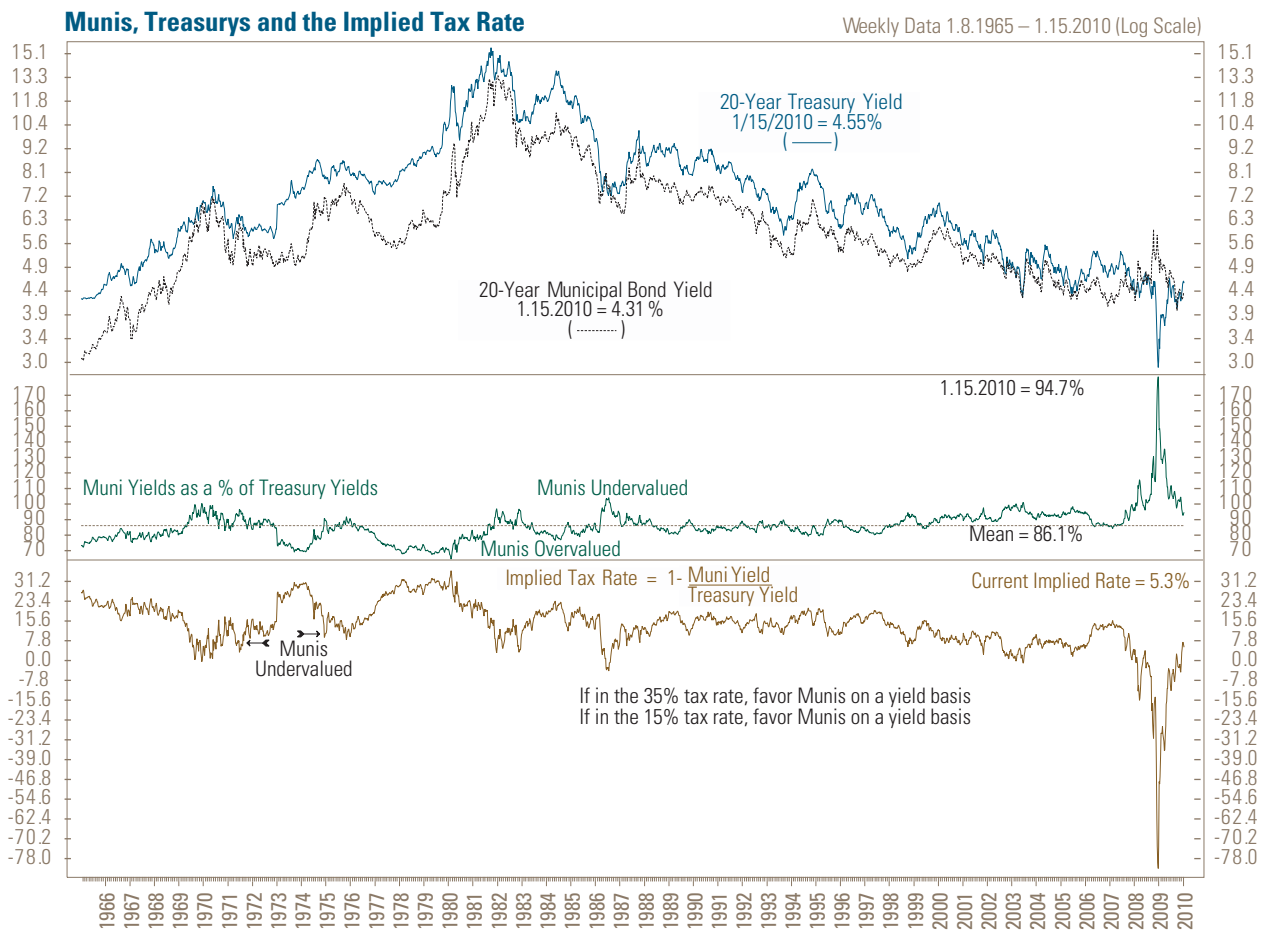
Municipals and Implied Tax Rates

Since yields for fixed income securities are constantly changing, Ned Davis Research provides a way for investors to analyze the historical valuation of municipal bonds relative to treasuries, agencies, and corporate bonds. The following charts show 20-year constant maturity treasury, agency, and corporate bond yields, and, various 20-year municipal bond yields; the ratio of municipal bond yields to these other fixed income security yields, and something called the “implied tax rate”.

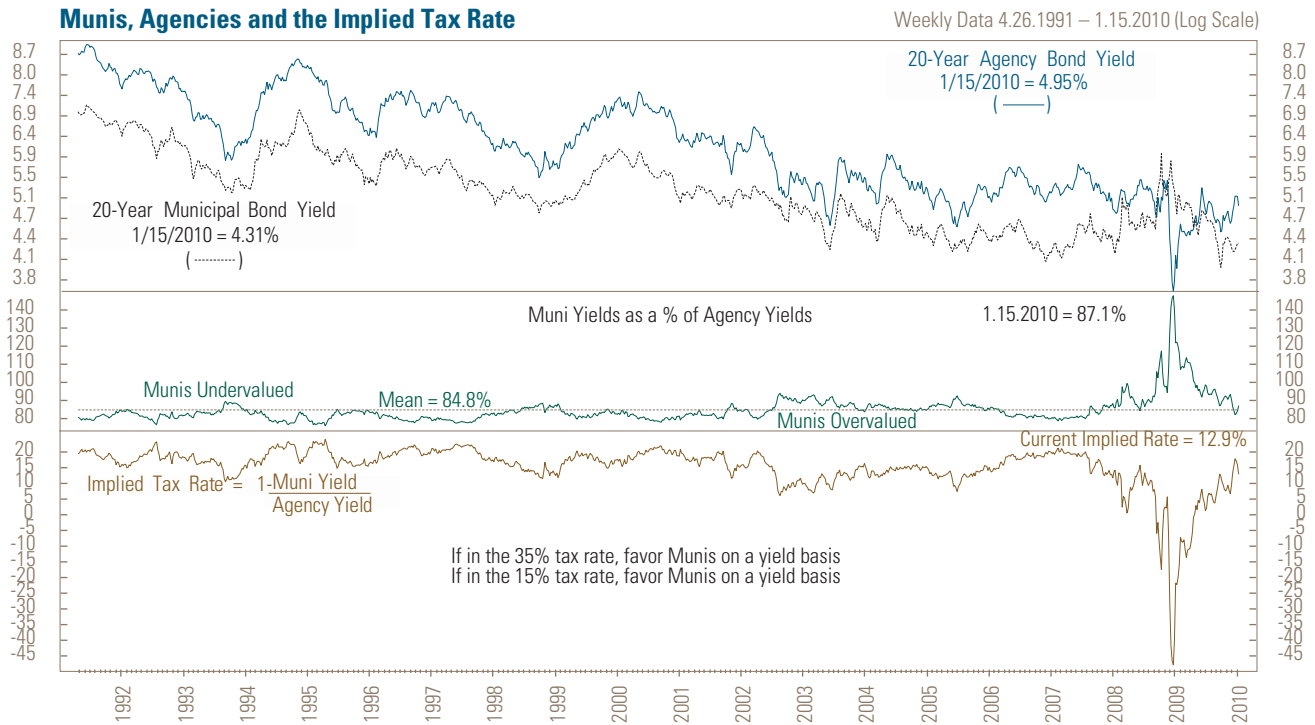
The implied tax rate is the rate that equates the after-tax (treasury, agency, or corporate) bond yield with the municipal bond yield. **It shows what tax bracket you need to be in to make investing in municipal bonds worthwhile on a yield basis. If, for example, the current implied tax rate was 20%, and your tax bracket was higher than 20%, you may be better off on an after-tax basis investing in municipal bonds. Conversely, if your tax bracket was less than 20%, you may be better off investing in Treasury, Agency, or Corporate bonds and paying the tax.** If you were in the 20% tax bracket, it may not make a difference which instrument you used.

Historically, there have been instances, such as late 1974, when the implied tax rate was negative, meaning that municipal bonds yielded more than Treasury bonds before tax. There were other times when the implied rate was negative or close to zero.

Municipal vs. Treasury Bonds, & the Implied Tax Rate

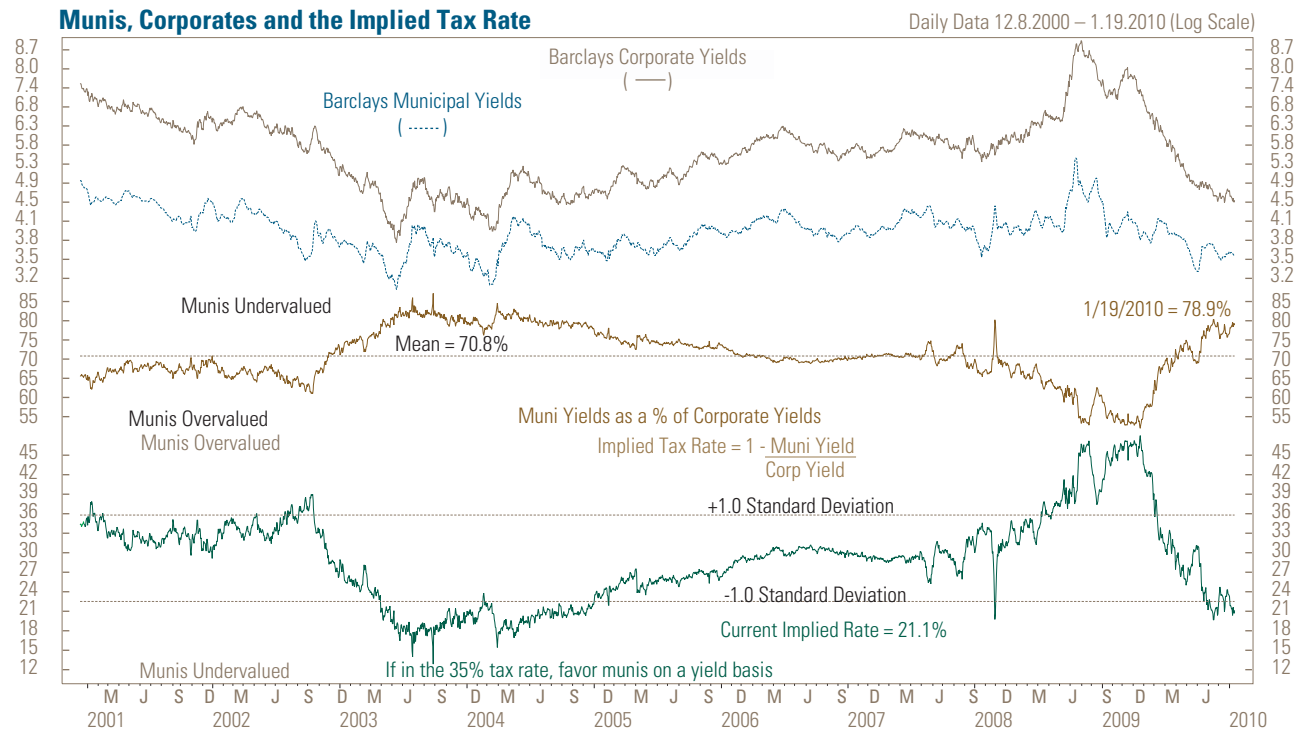


Municipal vs. Agency Bonds, & the Implied Tax Rate



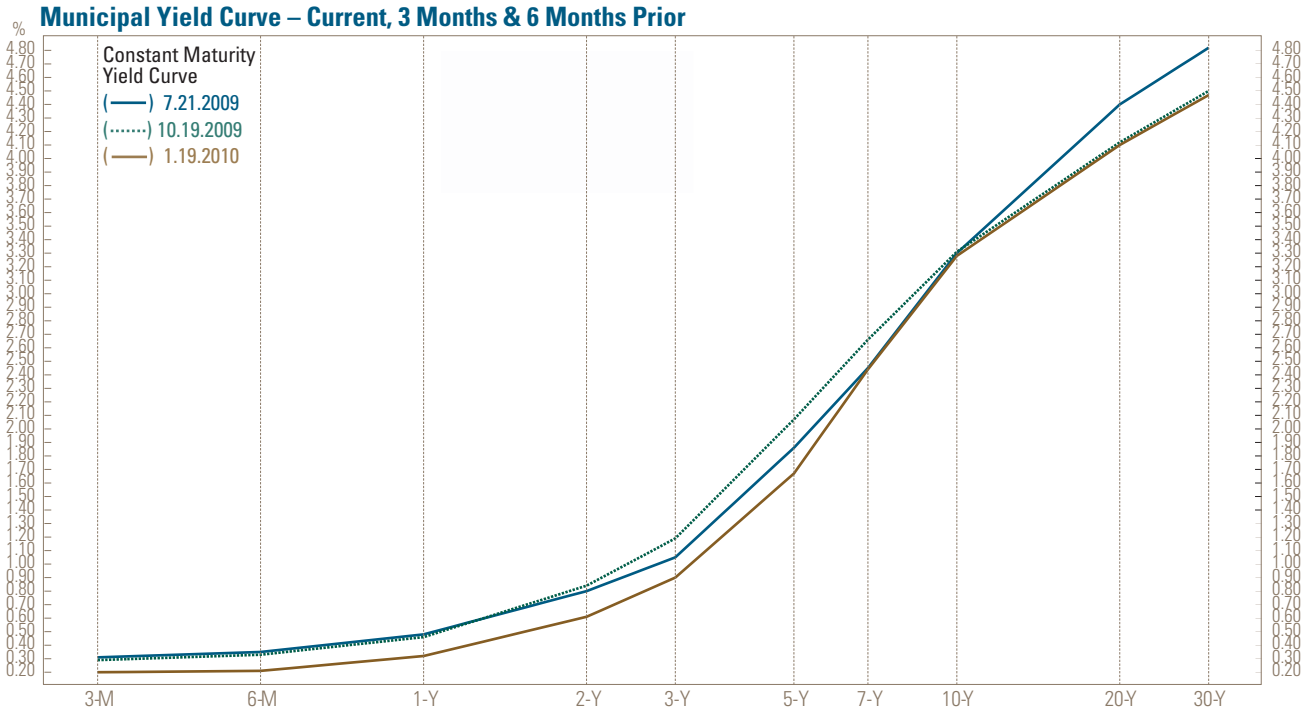
(B471) Courtesy of Ned Davis Research, Inc.

Municipal vs. Corporate Bonds, & the Implied Tax Rate

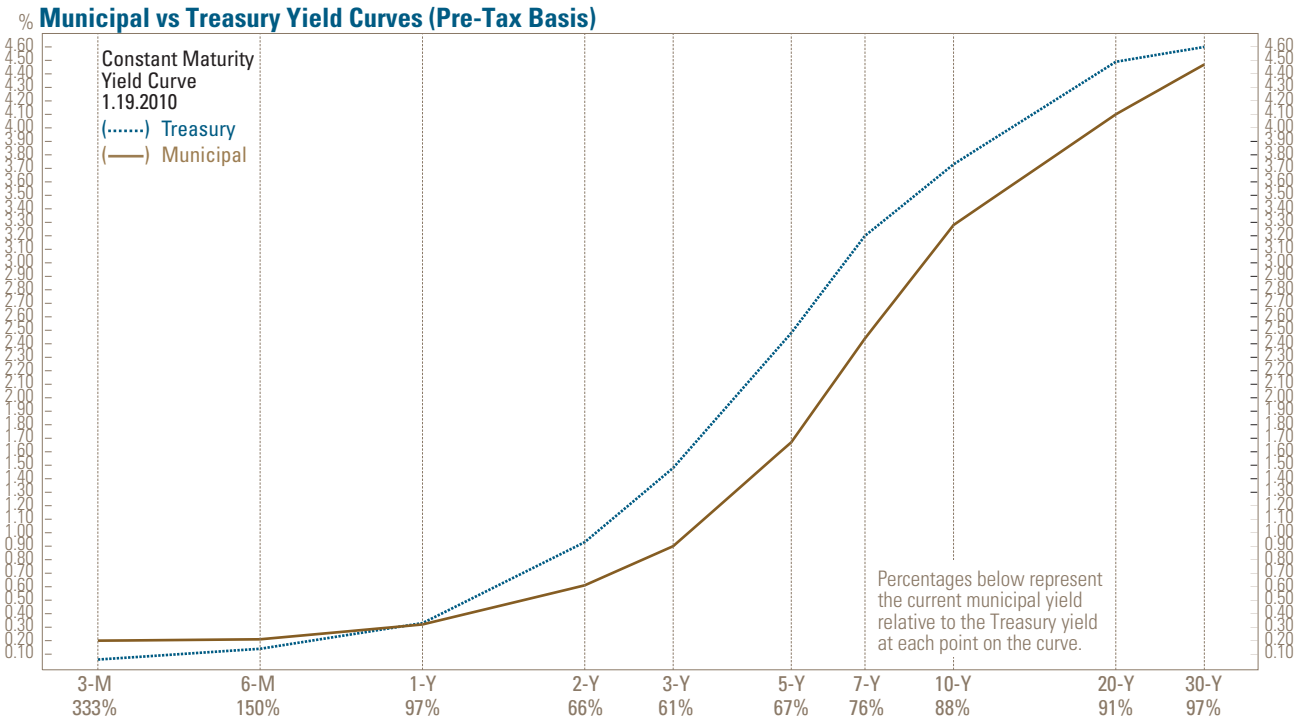


(B491) Courtesy of Ned Davis Research, Inc.

Municipal Yield Curve – Current, Recent Past vs. Treasury Yield Curve (Pre-tax basis)



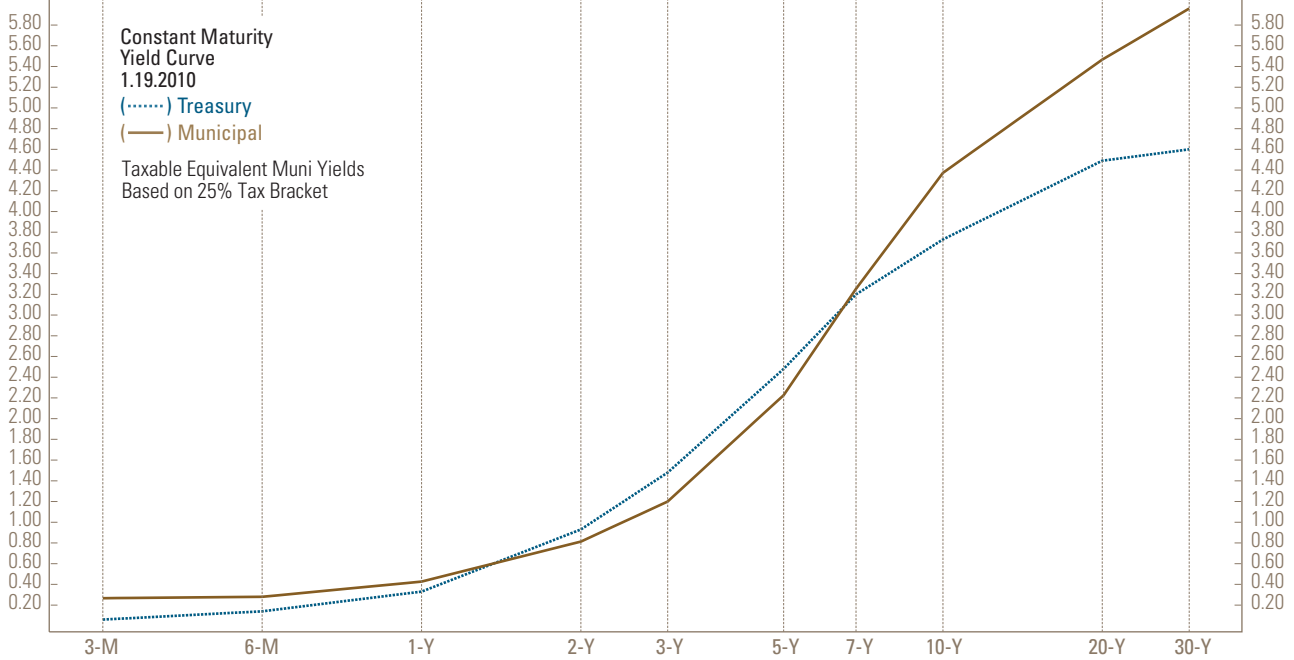
(B595B) Courtesy of Ned Davis Research, Inc.



(B595E) Courtesy of Ned Davis Research, Inc.

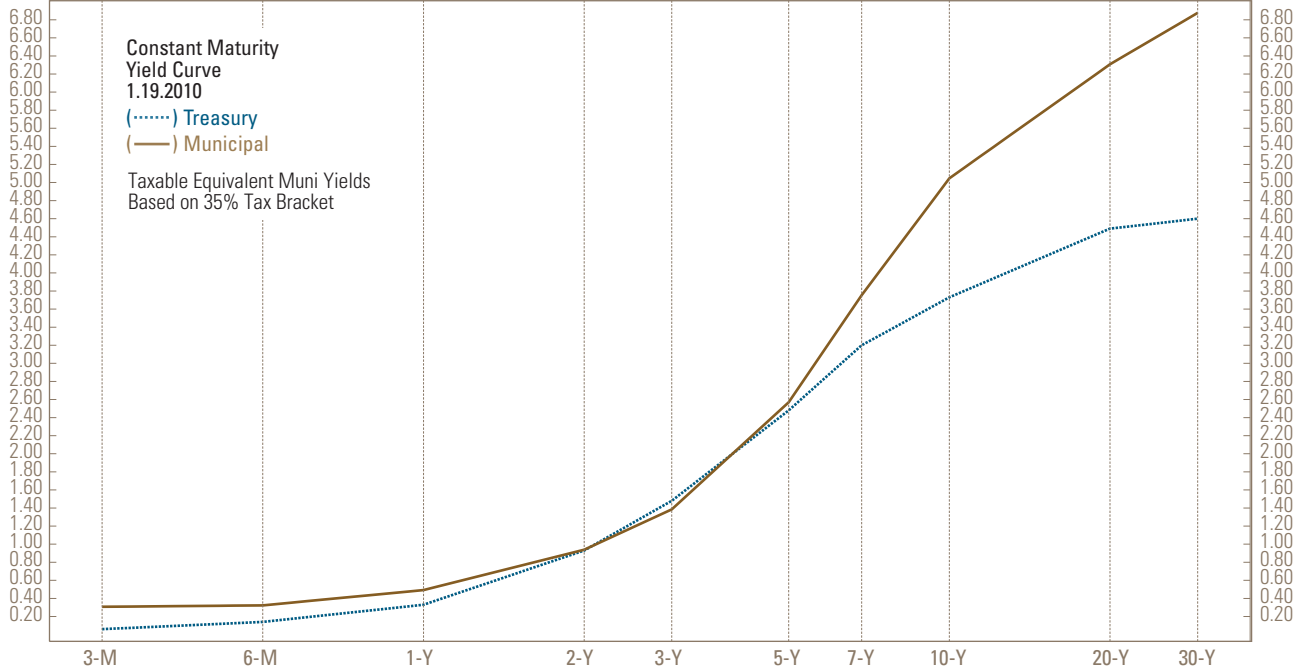
Municipal vs. Treasury Yield Curves – Taxable Equivalent Yields 25% and 35% Tax Brackets

% **Municipal vs Treasury Yield Curve (25% Tax Bracket)**



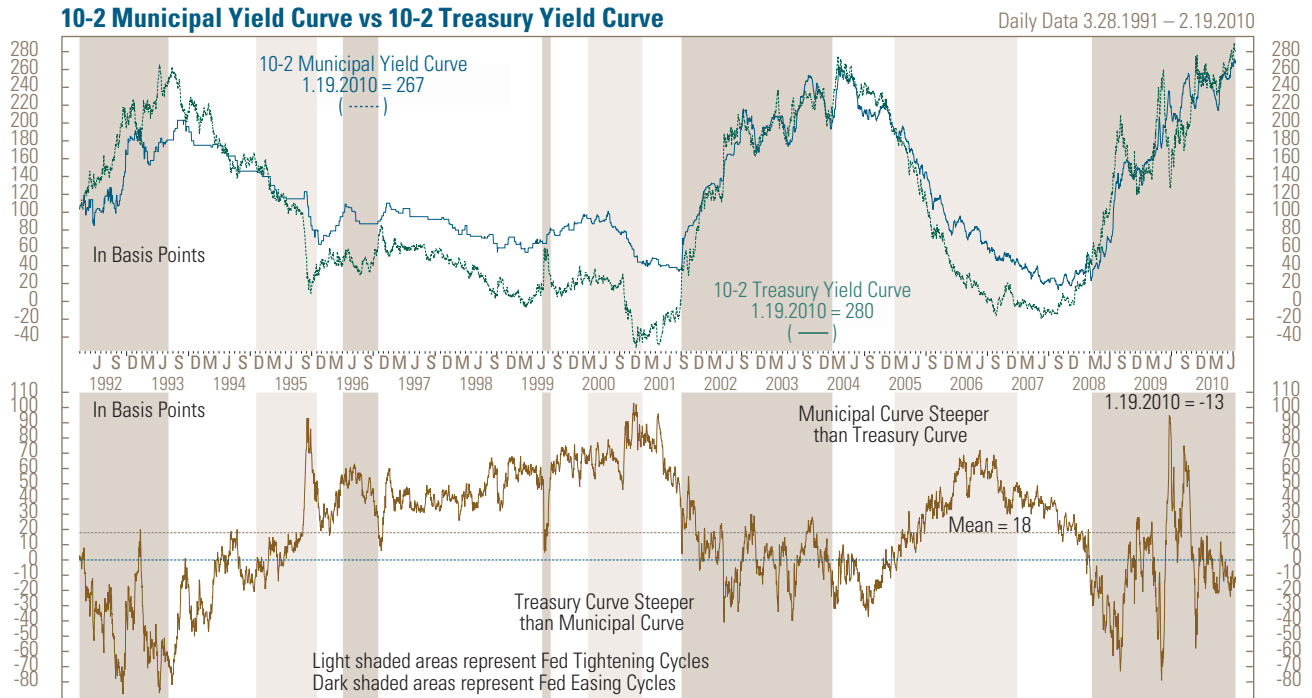
(B595C) Courtesy of Ned Davis Research, Inc.

% **Municipal vs Treasury Yield Curve (35% Tax Bracket)**



(B595D) Courtesy of Ned Davis Research, Inc.

Yield Curve Spread - 10 Year and 2 Year - Municipal Bonds vs. Treasuries

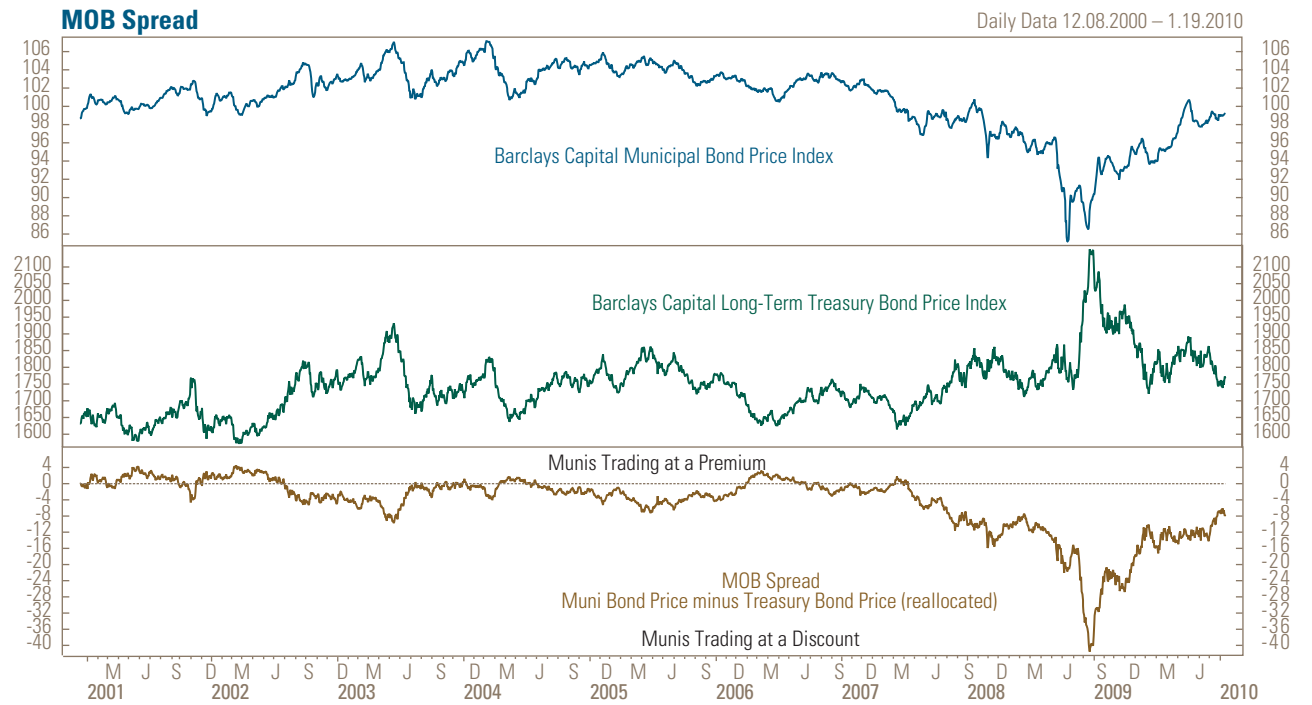


10-2 Municipal Bond Yield Curve less 10-2 Treasury Yield Curve

(B591E) Courtesy of Ned Davis Research, Inc.

Municipal Over Bonds (MOB) Spread

The yield spread between tax-free municipal bonds and treasury bonds with the same maturity.



(B140B) Courtesy of Ned Davis Research, Inc.

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Short/Intermediate - The Historical “Sweet Spot” of the Yield Curve?

Historical Municipal Risk - Reward Table

Data as of 12.31.09

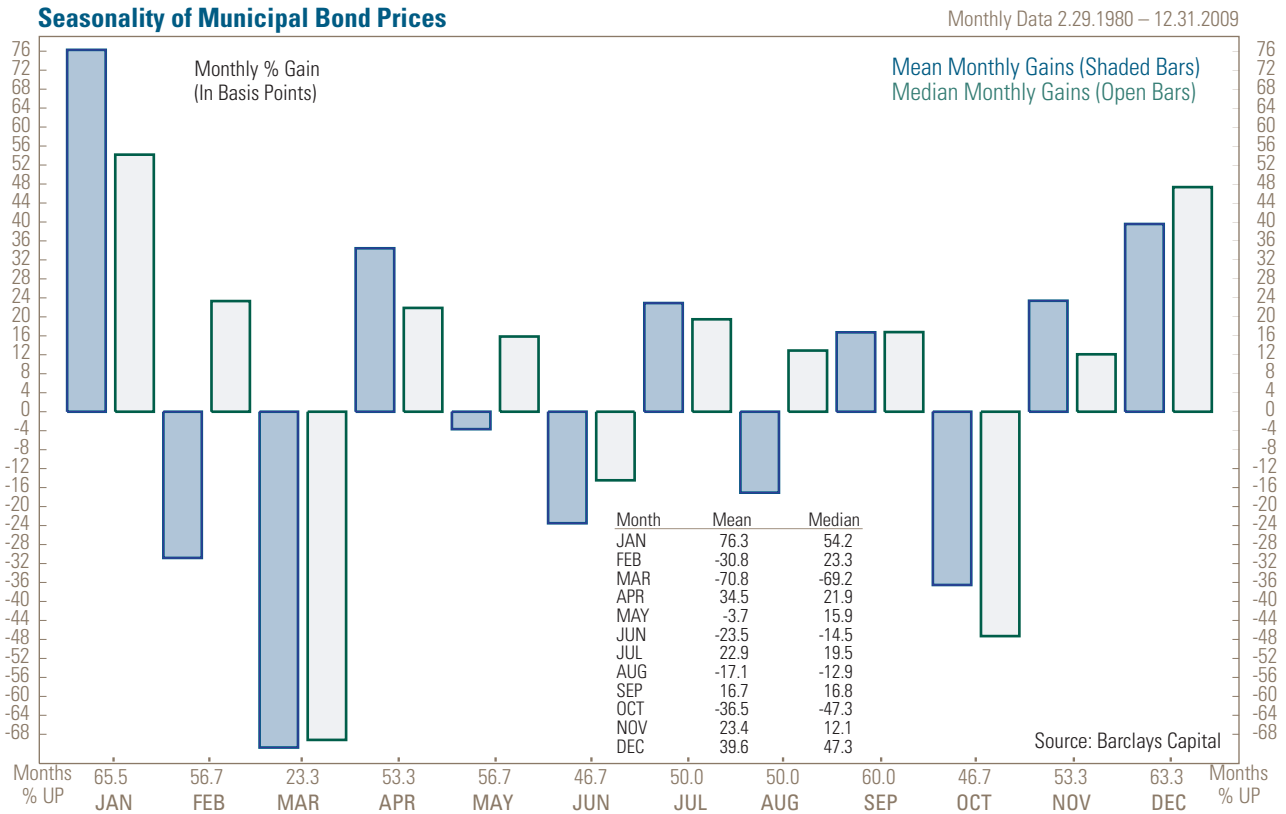
BARCLAYS MANAGED MONEY MUNICIPAL INDICIES TOTAL RETURN

	Short (%)	50% Short & 50% Short / Intermediate (%)	Short / Intermediate (%)	Intermediate (%)	Long (%)
1994	0.24	-0.93	-2.09	-3.55	-7.74
1995	9.06	10.78	12.50	14.87	21.01
1996	4.29	4.26	4.23	4.34	4.25
1997	5.42	6.17	6.91	8.32	10.83
1998	5.20	5.61	6.02	6.58	7.24
1999	1.81	0.98	0.14	-1.24	-5.60
2000	6.40	7.51	8.62	10.99	16.65
2001	6.51	6.03	5.55	5.01	4.22
2002	7.33	8.65	9.96	10.92	11.99
2003	2.76	3.65	4.54	5.27	6.39
2004	1.81	2.25	2.68	3.61	5.69
2005	0.82	1.11	1.39	2.18	4.74
2006	3.02	3.37	3.71	4.31	5.95
2007	4.94	4.97	5.00	4.51	2.70
2008	5.40	5.52	5.63	3.33	-3.66
2009	5.80	6.20	6.59	8.92	14.47
Annualized	4.40	4.72	5.03	5.43	5.93
(vs. Long) (%)	74.13	79.50	84.77	91.53	100.00
Duration	2.87	3.78	4.69	5.46	7.11
(vs. Long) (%)	40.37	53.16	65.96	76.79	100.00
Yield	1.32	1.81	2.30	2.91	4.17
(vs. Long) (%)	31.65	43.41	55.16	69.78	100.00

Source: Barclays Capital

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Seasonality of Municipal Bond Prices



(B0914) Courtesy of Ned Davis Research, Inc.

The Impact of the Potential Health Surtax – By State

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If Health Surtax is 5.4 Percent, Taxpayers in 39 States Would Pay a Top Tax Rate Over 50%

Introduction

New taxes to fund the federal government’s plan for higher health insurance spending continue to be debated in Washington. According to a new Bloomberg report, the top surtax rate will be 5.4 percent in the House plan.[i] That will be the top rate in a three-tiered surtax aimed at high-income tax returns:

- 1 percent surtax on AGI between \$350,000 and \$500,000 (singles between \$280,000 and \$400,000)
- 1.5 percent surtax on AGI between \$500,000 and \$1,000,000 (singles between \$400,000 and \$800,000)
- 5.4 percent surtax on AGI beyond \$1,000,000 (singles beyond \$800,000)

States have been raising taxes on this same group, leading to concern over how high the combined tax rates would be in each state, especially in the growing number of states with double-digit tax rates. Some commentators merely sum the rates at the federal, state and local level to give a statutory total tax rate. A more accurate method is to calculate the effective marginal tax rate, which takes into consideration deductions and adjustments. For a description of the difference between effective **marginal** tax rates and effective **average** tax rates, see [Average vs. Marginal Tax Rates Revisited](#).

In Table 1 below we present calculations of the effective marginal tax rate on top earners. We assume that the 2008 weighted local average for each state applies to 2011, the top federal taxable income rate will rise as scheduled to 39.6 percent, the top state tax rate in each state will follow current 2011 scheduled law, and a new House plan for 5.4 percent surtax on AGI earned at very high-income levels will become law.

Table 1 | Top Effective Marginal Rates under Proposed Health Care Surtax by State -Sorted by Combined Top Tax Rate in 2011

State	Avg. Local Rate (%)	Top State Rate (2011) (%)	Top Federal Ordinary Rate (%)	New Surtax (%)	Medicare Tax (%)	Combined Top Rate (%)	Rank
Oregon	0.36	11.00	39.6	5.4	2.9	57.54	1
Hawaii	0.00	11.00	39.6	5.4	2.9	57.22	2
New York ^A	1.70	8.97	39.6	5.4	2.9	56.92	3
California	0.00	10.30	39.6	5.4	2.9	56.58	4
Rhode Island	0.00	9.90	39.6	5.4	2.9	56.22	5
Maryland	2.98	6.25	39.6	5.4	2.9	55.61	6
New Jersey	0.00	8.97	39.6	5.4	2.9	55.46	7
Vermont	0.00	8.95	39.6	5.4	2.9	55.36	8
Minnesota	0.00	7.85	39.6	5.4	2.9	54.36	9
Idaho	0.00	7.80	39.6	5.4	2.9	54.32	10
North Carolina	0.00	7.75	39.6	5.4	2.9	54.27	11
Wisconsin	0.00	7.75	39.6	5.4	2.9	54.27	12
Ohio	1.82	5.93	39.6	5.4	2.9	54.27	13
Delaware	0.16	6.95	39.6	5.4	2.9	53.69	14
Arkansas	0.06	7.00	39.6	5.4	2.9	53.65	15
South Carolina	0.00	7.00	39.6	5.4	2.9	53.59	16
Maine	0.00	6.85	39.6	5.4	2.9	53.46	17
Nebraska	0.00	6.84	39.6	5.4	2.9	53.45	18
Kentucky	0.76	6.00	39.6	5.4	2.9	53.37	19
West Virginia	0.00	6.50	39.6	5.4	2.9	53.14	20
Kansas	0.00	6.45	39.6	5.4	2.9	53.09	21
Missouri	0.12	6.00	39.6	5.4	2.9	52.79	22
Georgia	0.00	6.00	39.6	5.4	2.9	52.69	23

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State	Avg. Local Rate (%)	Top State Rate (2011) (%)	Top Federal Ordinary Rate (%)	New Surtax (%)	Medicare Tax (%)	Combined Top Rate (%)	Rank
Virginia	0.00	5.75	39.6	5.4	2.9	52.46	24
Oklahoma	0.00	5.30	39.6	5.4	2.9	52.23	25
Massachusetts	0.00	5.00	39.6	5.4	2.9	52.05	26
Connecticut	0.00	5.00	39.6	5.4	2.9	51.78	27
Mississippi	0.00	5.00	39.6	5.4	2.9	51.78	27
Utah	0.00	4.90	39.6	5.4	2.9	51.78	27
New Mexico	0.00	4.86	39.6	5.4	2.9	51.69	30
North Dakota	0.00	8.98	39.6	5.4	2.9	51.65	31
Iowa	0.30	4.35	39.6	5.4	2.9	51.61	32
Michigan	0.44	4.63	39.6	5.4	2.9	51.59	33
Colorado	0.00	3.40	39.6	5.4	2.9	51.44	34
Indiana	1.16	4.54	39.6	5.4	2.9	51.38	35
Arizona	0.00	3.07	39.6	5.4	2.9	51.36	36
Pennsylvania	1.25	6.90	39.6	5.4	2.9	51.16	37
Montana	0.00	6.00	39.6	5.4	2.9	50.48	38
Louisiana	0.00	3.00	39.6	5.4	2.9	50.05	39
Illinois	0.00	5.00	39.6	5.4	2.9	49.97	40
Alabama	0.19	0.00	39.6	5.4	2.9	49.67	41
Alaska	0.00	0.00	39.6	5.4	2.9	47.25	42
Florida	0.00	0.00	39.6	5.4	2.9	47.25	42
Nevada	0.00	0.00	39.6	5.4	2.9	47.25	42
New Hampshire	0.00	0.00	39.6	5.4	2.9	47.25	42
South Dakota	0.00	0.00	39.6	5.4	2.9	47.25	42
Tennessee	0.00	0.00	39.6	5.4	2.9	47.25	42
Texas	0.00	0.00	39.6	5.4	2.9	47.25	42
Washington	0.00	0.00	39.6	5.4	2.9	47.25	42
Wyoming	0.00	0.00	39.6	5.4	2.9	47.25	42
District of Columbia	0.00	8.50	39.6	5.4	2.9	54.95	
New York City [^]	3.65	8.97	39.6	5.4	2.9	58.68	

Source: Tax Foundation calculations, [State Individual Income Tax Rates](#)

Note: The rightmost column, Combined Top Rate, is the top effective marginal rate, taking into account deductions and adjustments, and therefore does not equal the sum of the first four rates.

Technical Notes

To calculate marginal effective tax rate, we add the weighted average of local tax rates in the state based upon *2009 State Business Climate Index* to top state tax rate and to the top federal rate as scheduled to be in effect in 2011 under current law and under Obama's budget (39.6 percent), plus a 5.4 percent surtax and the top Medicare tax rate for the self-employed. We allowed for a deduction of the state and local tax rate (20 percent thereof assuming limitation on itemized deduction returns and taxpayer is outside the phase-out range) and the adjustment allowed against income from 1/2 self-employment tax (on both state/local and federal returns). For those few states that allow federal deductibility at high income levels, such a deduction was included in the calculation as well. New York City's rate merely includes the state rate plus the city rate. Maine, New Jersey, Vermont and California currently have top state tax rates higher than the 2011 scheduled rate in the table above. For some other states that have recently enacted temporary increases to the top rate (e.g. Oregon), the rate would fall *after* 2011.

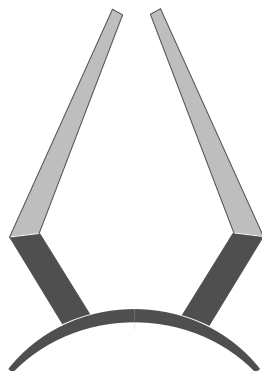
The Joint Committee on Taxation has verified that the thresholds for singles and heads of household returns would be 80% of the married threshold.

These are not the highest possible marginal tax rates that a taxpayer can face. Our local rates are weighted averages, so in some towns and counties, the local rates can be significantly higher. Also, at some income levels for different types of taxpayers, due to the phase-outs of various tax credits, exemptions or deductions, effective marginal tax rates can be extremely high. Also, if one wanted to include the fact that many low-income transfer programs are means-tested and have phase-out ranges (or in some cases mere cliffs), the marginal disincentive to work can be very high. For more on this issue, see [Kotlikoff and Rapson](#).

[i] The Tax Foundation released an initial *Fiscal Fact* on Friday, July 10, 2009 using a 4% surtax rate, which would have put 33 states over the 50% total tax rate threshold. A further revision on Friday, July 10, 2009 used a 3% rate, per an announcement by the Ways and Means Committee, which put 24 states over the 50% level.

RESULTS SPEAK LOUDER THAN WORDS - AGAIN

Munder Tax-Free Short & Intermediate Bond Fund Y*



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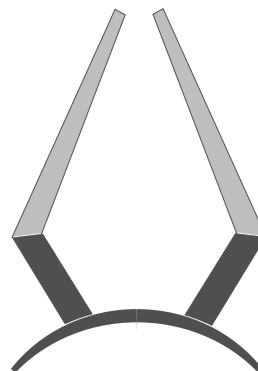
FUND AWARDS 2009

UNITED STATES

Short-Intermediate Municipal Debt Funds

**Best Fund
Over 3 Years**

**Best Fund
Over 5 Years**



LIPPER

FUND AWARDS 2010

UNITED STATES

Short-Intermediate Municipal Debt Funds

**Best Fund
Over 3 Years**

This Fund may experience negative performance.

*Class Y shares have a minimum initial investment of \$1,000,000 with limited exceptions as outlined in the Fund's prospectus.



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The Tax-Free Short & Intermediate Bond Fund (Class Y) was awarded the 2010 Lipper Award for Consistent Return among 37 Short-Intermediate Municipal Debt Funds for the three-year period ended 12.31.09. It was also awarded the 2009 Lipper Fund Award for Consistent Return, among 40 Short-Intermediate Municipal Debt Funds for the three- and five-year periods ended 12.31.08. Lipper presents these awards each calendar year to one fund in each category that has achieved a strong trend of risk-adjusted returns relative to other funds in its category. The Lipper Short-Intermediate Municipal Debt Funds Average represents a universe of funds with similar investment objectives to the Munder Tax-Free Short & Intermediate Bond Fund. Lipper averages are provided by Lipper Analytical Services, Inc. A Lipper Fund Award is awarded to one fund in each Lipper classification for achieving the Strongest trend of consistent risk-adjusted performance against its classification peers over a three-, five-, or ten-year period, if applicable. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Lipper Analytical Services, Inc. is an independent mutual fund research and rating service.

Past performance does not guarantee future results. Investing involves risk, including possible loss of principal. An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the Fund's prospectus obtained on www.munder.com. Please read the prospectus carefully before investing. This fund offers five classes of shares with different sales loads, fees and expense levels that affect performance. Class A, B (open to limited investors only) and C shares have sales loads, while Class K and Y shares are not subject to sales loads. RISKS: A portion of the Tax-Free Short & Intermediate Bond Fund's income may be subject to state, local and/or federal alternative minimum taxes. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates. Munder Funds are distributed by Funds Distributor, LLC. 03/10

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